

CITY OF TOWANDA, KANSAS

**Financial Statements
December 31, 2010**

**with
Independent Auditors' Report**

CITY OF TOWANDA, KANSAS
Financial Statements
December 31, 2010

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PETERSON, PETERSON & GOSS, L.C.

MEMBERS
GREGORY B. SEVIER, C.P.A.
JOHN B. GOSS, C.P.A.

PRINCIPALS
VONDA J. WILSON, C.P.A.
DENISE M. GUDENKAUF, C.P.A.
MATT T. HAASE, C.P.A.
JON W. OETTING, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

417 NORTH TOPEKA AVENUE
P.O. BOX 1259

WICHITA, KANSAS 67201-1259

TELEPHONE 316-262-8371
FAX 316-262-5369
www.ppglc.com

**MEMBER OF THE
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

OF COUNSEL
MARVIN W. NYE, C.P.A.

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Towanda, Kansas

We have audited the accompanying financial statements of the individual funds of the City of Towanda, Kansas as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the City's policy is to prepare its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the City of Towanda, Kansas, as of December 31, 2010 and the revenues received and expenditures paid of such funds for the year then ended on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the City Council and management of the City of Towanda, Kansas and for filing with the Kansas Department of Administration, Division of Accounts and Reports and should not be used for any other purpose.

Peterson Peterson & Goss, LC

August 3, 2011

CITY OF TOWANDA, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For The Year Ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Fund Types:						
General	\$ 3,808	\$ 476,546	\$ 468,462	\$ 11,892	\$ 103	\$ 11,995
Special Revenue:						
Library	1,000	42,783	41,700	2,083		2,083
Fire Rescue	37,652	100,463	72,002	66,113		66,113
Fire Rescue Reserve	76,832	47,314	41,995	82,151		82,151
Special Parks/Recreation	12,481	51,985	51,262	13,204		13,204
Equipment Reserve	24,474	20,000	4,900	39,574		39,574
Consolidated Streets	728	43,667	40,234	4,161		4,161
Street Reserve	73,326	51,209	84,738	39,797		39,797
Community Center	205	11,470	9,827	1,848		1,848
Capital Improvement	55	-	-	55		55
Capital Project:						
Lagoon Project	5	-	-	5		5
Debt Service:						
Bond and Interest	25,995	73,458	69,277	30,176		30,176
Proprietary Fund Types:						
Water Utility	19,726	290,786	287,039	23,473	1,164	24,637
Water Utility Reserve	36,156	18,563	8,069	46,650		46,650
Sewer Utility	3,547	200,123	195,219	8,451		8,451
Sewer Utility Reserve	64,056	11,241	59,988	15,309		15,309
Sewer Plant Reserve	25,062	32,906	57,832	136		136
Sewer Debt Service	85,172	67,200	108,280	44,092		44,092
Refuse Utility	5,174	98,990	91,334	12,830		12,830
Total Primary Government	495,454	1,638,704	1,692,158	442,000	1,267	443,267
Component Unit:						
Towanda Library General Fund	42,925	62,835	56,667	49,093		49,093
Total Reporting Entity (Excluding Agency Funds)	\$ 538,379	\$ 1,701,539	\$ 1,748,825	\$ 491,093	\$ 1,267	\$ 492,360
Composition of cash:						
Checking account - Towanda State Bank						\$ 444,114
Petty cash						450
Total component unit						49,093
Total Cash						493,657
Agency Funds per Statement 4						(1,297)
Total Reporting Entity (Excluding Agency Funds)						\$ 492,360

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
 Summary of Expenditures - Actual and Budget
 For The Year Ended December 31, 2010

Funds	Amended or Certified Budget	Expenditures Chargeable to Current Year	Variance - Favorable (Unfavorable)
General	\$ 574,638	\$ 468,462	\$ 106,176
Special Revenue:			
Library	44,500	41,700	2,800
Fire Rescue	87,054	72,002	15,052
Special Parks/Recreation	129,302	51,262	78,040
Consolidated Streets	63,810	40,234	23,576
Community Center	11,000	9,827	1,173
Debt Service:			
Bond and Interest	73,244	69,277	3,967
Proprietary:			
Water Utility	297,986	287,039	10,947
Sewer Utility	266,758	195,219	71,539
Refuse Utility	94,488	91,334	3,154

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 274,334	\$ 252,657	\$ (21,677)
Delinquent tax	25,000	17,786	(7,214)
Motor vehicle tax	64,510	57,949	(6,561)
Franchise fees	75,000	81,290	6,290
Licenses, permits and fees	20,000	14,330	(5,670)
Swimming pool	13,000	12,040	(960)
Fines, forfeitures and penalties	30,000	10,449	(19,551)
Interest	22,000	7,078	(14,922)
Cemetery service charges	5,000	2,700	(2,300)
Donations	10,000	-	(10,000)
Other	15,000	20,267	5,267
Total Cash Receipts	<u>553,844</u>	<u>476,546</u>	<u>(77,298)</u>
Expenditures:			
General government:			
Health insurance premiums	23,373	30,460	(7,087)
Mayor and council	2,000	1,168	832
Administration/finance	178,845	137,508	41,337
Municipal court	912	4,521	(3,609)
Legal	18,777	14,408	4,369
Planning and zoning	18,885	23,674	(4,789)
Swimming pool	48,052	46,771	1,281
Recreation	-	1,232	(1,232)
Library and museum	5,077	2,792	2,285
Senior Center	13,370	14,508	(1,138)
Neighborhood revitalization rebate	1,800	-	1,800
Public Safety:			
Police department	154,928	107,297	47,631
Animal control	650	325	325
Public works	63,103	18,932	44,171

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Expenditures: (continued)			
Transfers to:			
Street Reserve Fund	\$ 10,000	\$ 10,000	\$ -
Equipment Reserve Fund	-	20,000	(20,000)
Fire Rescue Fund	25,866	25,866	-
Community Center Fund	9,000	9,000	-
Total Expenditures	<u>574,638</u>	<u>468,462</u>	<u>106,176</u>
Receipts Over (Under) Expenditures	(20,794)	8,084	28,878
Unencumbered Cash, Beginning	<u>20,794</u>	<u>3,808</u>	<u>(16,986)</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>	<u><u>\$ 11,892</u></u>	<u><u>\$ 11,892</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Library Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 35,991	\$ 33,151	\$ (2,840)
Delinquent tax	-	2,068	2,068
Motor vehicle tax	8,509	7,564	(945)
Total Cash Receipts	<u>44,500</u>	<u>42,783</u>	<u>(1,717)</u>
Expenditures:			
Appropriation to Library Board	<u>44,500</u>	<u>41,700</u>	<u>2,800</u>
Receipts Over (Under) Expenditures	-	1,083	1,083
Unencumbered Cash, Beginning	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>	<u><u>\$ 2,083</u></u>	<u><u>\$ 2,083</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Fire Rescue Fund
For The Year Ended December 31, 2010

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Township distributions	\$ 62,740	\$ 74,597	\$ 11,857
Transfer from General Fund	-	25,866	25,866
Total Cash Receipts	62,740	100,463	37,723
Expenditures:			
Personal services	8,354	6,595	1,759
Contractual services	11,700	11,405	295
Commodities	27,000	14,002	12,998
Transfer to Fire Rescue Reserve Fund	40,000	40,000	-
Total Expenditures	87,054	72,002	15,052
Receipts Over (Under) Expenditures	(24,314)	28,461	52,775
Unencumbered Cash, Beginning	28,414	37,652	9,238
Unencumbered Cash, Ending	\$ 4,100	\$ 66,113	\$ 62,013

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Fire Rescue Reserve Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Other	\$ 7,314
Transfer from Fire Rescue Fund	40,000
Total Cash Receipts	<u>47,314</u>
Expenditures:	
Lease payments - fire truck	34,297
Fire equipment	7,698
Total Expenditures	<u>41,995</u>
Receipts Over (Under) Expenditures	5,319
Unencumbered Cash, Beginning	<u>76,832</u>
Unencumbered Cash, Ending	<u><u>\$ 82,151</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Special Parks/Recreation Fund
For The Year Ended December 31, 2010

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Recreation fees	\$ 100,000	\$ 49,109	\$ (50,891)
Concessions	20,000	1,876	(18,124)
Donations	-	1,000	1,000
Total Cash Receipts	120,000	51,985	(68,015)
Expenditures:			
Concessions	3,000	1,950	1,050
Contractual services	10,000	2,733	7,267
Commodities	30,000	40,134	(10,134)
Capital outlay	86,302	6,445	79,857
Total Expenditures	129,302	51,262	78,040
Receipts Over (Under) Expenditures	(9,302)	723	10,025
Unencumbered Cash, Beginning	9,302	12,481	3,179
Unencumbered Cash, Ending	\$ -	\$ 13,204	\$ 13,204

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Equipment Reserve Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Transfer from General Fund	\$ 20,000
Expenditures:	
Capital outlay	<u>4,900</u>
Receipts Over (Under) Expenditures	15,100
Unencumbered Cash, Beginning	<u>24,474</u>
Unencumbered Cash, Ending	<u><u>\$ 39,574</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Consolidated Streets Fund
For The Year Ended December 31, 2010

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
State of Kansas gas tax	\$ 39,260	\$ 37,059	\$ (2,201)
County highway distribution	6,550	6,039	(511)
Other	-	569	569
Transfer from Water Utility Fund	18,000	-	(18,000)
Total Cash Receipts	63,810	43,667	(20,143)
Expenditures:			
Personal services	43,629	21,353	22,276
Contractual services	4,231	4,252	(21)
Commodities	12,956	14,629	(1,673)
Transfer to Street Reserve	2,994	-	2,994
Total Expenditures	63,810	40,234	23,576
Receipts Over (Under) Expenditures	-	3,433	3,433
Unencumbered Cash, Beginning	-	728	728
Unencumbered Cash, Ending	\$ -	\$ 4,161	\$ 4,161

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Street Reserve Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Other	\$ 30,721
Transfer from General Fund	10,000
Transfer from Refuse Utility Fund	<u>10,488</u>
Total Cash Receipts	51,209
Expenditures:	
Contractual services	<u>84,738</u>
Receipts Over (Under) Expenditures	(33,529)
Unencumbered Cash, Beginning	<u>73,326</u>
Unencumbered Cash, Ending	<u><u>\$ 39,797</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Community Center Fund
For The Year Ended December 31, 2010

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Donations	\$ 2,000	\$ 520	\$ (1,480)
Rent	-	1,650	1,650
Miscellaneous	-	300	300
Transfer from General Fund	9,000	9,000	-
Total Cash Receipts	11,000	11,470	470
Expenditures:			
Contractual	9,300	6,388	2,912
Commodities	1,700	3,439	(1,739)
Total Expenditures	11,000	9,827	1,173
Receipts Over (Under) Expenditures	-	1,643	1,643
Unencumbered Cash, Beginning	-	205	205
Unencumbered Cash, Ending	\$ -	\$ 1,848	\$ 1,848

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Capital Improvement Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 55</u>
Unencumbered Cash, Ending	<u><u>\$ 55</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Lagoon Project Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 5</u>
Unencumbered Cash, Ending	<u><u>\$ 5</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Bond and Interest Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Cash Receipts:			
Special assessments	\$ 63,244	\$ 53,811	\$ (9,433)
Street impact fee	-	19,647	19,647
Transfer from Street Reserve Fund	18,000	-	(18,000)
Total Cash Receipts	<u>81,244</u>	<u>73,458</u>	<u>(7,786)</u>
Expenditures:			
Principal	31,500	44,000	(12,500)
Interest	41,744	25,277	16,467
Total Expenditures	<u>73,244</u>	<u>69,277</u>	<u>3,967</u>
Receipts Over (Under) Expenditures	8,000	4,181	(3,819)
Unencumbered Cash, Beginning	<u>25,435</u>	<u>25,995</u>	<u>560</u>
Unencumbered Cash, Ending	<u>\$ 33,435</u>	<u>\$ 30,176</u>	<u>\$ (3,259)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Water Utility Fund
For The Year Ended December 31, 2010

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Charges for service	\$ 277,000	\$ 284,602	\$ 7,602
Tapping fees	6,350	350	(6,000)
Miscellaneous	5,500	5,834	334
Total Cash Receipts	288,850	290,786	1,936
Expenditures:			
Personal services	83,778	78,210	5,568
Contractual services	134,600	173,318	(38,718)
Commodities	8,608	28,869	(20,261)
Lease payments	32,000	6,642	25,358
Transfers to:			
Water Utility Reserve Fund	21,000	-	21,000
Consolidated Streets Fund	18,000	-	18,000
Total Expenditures	297,986	287,039	10,947
Receipts Over (Under) Expenditures	(9,136)	3,747	12,883
Unencumbered Cash, Beginning	9,136	19,726	10,590
Unencumbered Cash, Ending	\$ -	\$ 23,473	\$ 23,473

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Water Utility Reserve Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Antenna rental	\$ 18,563
Expenditures:	
Contractual services	<u>8,069</u>
Receipts Over (Under) Expenditures	10,494
Unencumbered Cash, Beginning	<u>36,156</u>
Unencumbered Cash, Ending	<u><u>\$ 46,650</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Sewer Utility Fund
For The Year Ended December 31, 2010

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Charges for service	\$ 163,400	\$ 148,327	\$ (15,073)
Tapping fees	500	-	(500)
Transfer from Sewer Plant Reserve Fund	-	51,796	51,796
Total Cash Receipts	163,900	200,123	36,223
Expenditures:			
Personal services	56,396	104,273	(47,877)
Contractual services	7,800	28,536	(20,736)
Commodities	5,500	14,644	(9,144)
Capital outlay	81,062	-	81,062
Debt service payment	95,000	47,766	47,234
Transfers to:			
Capital Improvement Fund	5,000	-	5,000
Sewer Utility Reserve Fund	16,000	-	16,000
Total Expenditures	266,758	195,219	71,539
Receipts Over (Under) Expenditures	(102,858)	4,904	107,762
Unencumbered Cash, Beginning	102,858	3,547	(99,311)
Unencumbered Cash, Ending	\$ -	\$ 8,451	\$ 8,451

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Sewer Utility Reserve Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Sales tax	\$ 11,241
Expenditures:	
Contractual services	27,184
Debt service	<u>32,804</u>
Total Expenditures	<u>59,988</u>
Receipts Over (Under) Expenditures	(48,747)
Unencumbered Cash, Beginning	<u>64,056</u>
Unencumbered Cash, Ending	<u><u>\$ 15,309</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Sewer Plant Reserve Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Sewer plant reserve fees	\$ 32,906
Expenditures:	
Bond interest	6,036
Transfer to Sewer Utility	51,796
Total Expenditures	<u>57,832</u>
Receipts Over (Under) Expenditures	(24,926)
Unencumbered Cash, Beginning	<u>25,062</u>
Unencumbered Cash, Ending	<u><u>\$ 136</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Sewer Debt Service Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Sales tax	\$ 67,200
Expenditures:	
Debt service	<u>108,280</u>
Receipts Over (Under) Expenditures	(41,080)
Unencumbered Cash, Beginning	<u>85,172</u>
Unencumbered Cash, Ending	<u><u>\$ 44,092</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Refuse Utility Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Cash Receipts:			
Charges for service	\$ 93,000	\$ 98,990	\$ 5,990
Expenditures:			
Collection service/landfill charges	84,000	80,846	3,154
Transfer to Street Reserve Fund	10,488	10,488	-
Total Expenditures	<u>94,488</u>	<u>91,334</u>	<u>3,154</u>
Receipts Over (Under) Expenditures	(1,488)	7,656	9,144
Unencumbered Cash, Beginning	<u>1,488</u>	<u>5,174</u>	<u>3,686</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>	<u><u>\$ 12,830</u></u>	<u><u>\$ 12,830</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Disbursements
Agency Funds
For The Year Ended December 31, 2010

<u>Funds</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Cemetery	\$ -	\$ 2,700	\$ 1,500	\$ 1,200
Police forfeitures	101	-	4	97
Total	<u>\$ 101</u>	<u>\$ 2,700</u>	<u>\$ 1,504</u>	<u>\$ 1,297</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
TOWANDA PUBLIC LIBRARY BOARD (Component Unit)
Statement of Cash Receipts and Expenditures - Actual
General Fund - Library
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
State of Kansas	\$ 763
Interest	215
Memorial, donations, etc.	520
City of Towanda appropriation	42,783
SCKLS	14,613
Fundraising	3,366
Miscellaneous	575
Total Cash Receipts	<u>62,835</u>
Expenditures:	
Personal services	33,365
Supplies, books, subscriptions, etc.	17,472
Automation grant	5,830
Total Expenditures	<u>56,667</u>
Receipts Over (Under) Expenditures	6,168
Unencumbered Cash, Beginning	<u>42,925</u>
Unencumbered Cash, Ending	<u><u>\$ 49,093</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Towanda, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

The City of Towanda is a municipal corporation governed by an elected five-member council. These financial statements present the City of Towanda (the primary government) and its component unit. The component unit is included in the City's reporting entity because of its significance of its operational or financial relationship with the City.

Discretely Presented Component Unit: The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit (The Library) is reported separately to emphasize that it is legally separate from the City. The governing body of the component unit is appointed by the City. The Towanda Public Library Board operates the City's public library. Acquisition or disposition of real property by the board must be approved by the City. Bond issuances must also be approved by the City. Appropriations from the City account for over 75% of the Board's receipts.

Basis of Presentation

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Towanda, Kansas for the year 2010:

Governmental Funds:

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

1. Summary of Significant Accounting Policies (continued)

Governmental Funds:

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Capital Projects Fund - to account for financial resources segregated for the acquisition of major capital facilities.

Debt Service Fund – to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

Proprietary Funds:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to a private business enterprise, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City operates the water utility, sewer utility and refuse utility.

Fiduciary Funds:

Trust Funds – to account for assets held by a governmental unit in a trustee capacity for others.

Basis of Accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure is charged in the fund from which the transfer is made.

The City has approved a waiver from generally accepted accounting principles, allowed by the State of Kansas, which permits the City to use the statutory basis of accounting.

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

1. Summary of Significant Accounting Policies (continued)

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. General fixed assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements. Capital assets and related depreciation are not reflected in the enterprise funds.

Special Assessments

Projects financed in part by special assessments are financed through the issuance of general obligation bonds which are secured by the full faith and credit of the City and are retired from the Bond and Interest Fund. Further, State statutes permit the levying of additional general ad valorem property taxes to finance delinquent special assessments. Special assessment taxes are levied over ten-year or fifteen-year periods and the annual installments are due and payable with annual ad valorem property taxes.

Subsequent Events

Subsequent events have been evaluated through August 3, 2011, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

2. Budget and Tax Cycle

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds.

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

2. Budget and Tax Cycle (continued)

The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, agency funds and certain special revenue funds and reserve funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

The Library annually prepares a budget of expenditures in order to determine its appropriations request from the City. The Library is not a tax levy authority and is not required to publish its budget.

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

3. Defined Benefit Pension Plan

Plan Description

The City of Towanda contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefits provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% (Tier 1) and 6% (Tier 2) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statutes for 1/01/10 to 12/31/10 is 7.14%. The City of Towanda employer contributions to KPERS for the years ending December 31, 2010, 2009 and 2008 were \$16,512, \$15,610, and \$17,528 respectively, equal to the required contributions for each year.

4. Compliance with Kansas Statutes

Management is aware of no statutory violations for the year ended December 31, 2010.

5. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
General Fund	Fire Rescue Fund	\$25,866
General Fund	Equipment Reserve Fund	20,000
General Fund	Street Reserve Fund	10,000
General Fund	Community Center Fund	9,000
Fire Rescue Fund	Fire Rescue Reserve Fund	40,000
Refuse Utility Fund	Street Reserve Fund	10,488

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

6. Compensated Absences

Full-time employees may earn between 10-20 vacation days during a calendar year, depending on their years of service, but no more than 5 days may be carried over from one year to the next. Upon termination or retirement, employees shall be compensated for all unused vacation days at their final pay rate. The cost of accumulated vacation is recorded at the time the benefits are paid to the employees. The estimated liability at December 31, 2010 if all employees with accumulated vacation were to terminate employment would be \$2,409.

7. Capital Projects

At year-end, there were no significant city-funded capital project authorizations outstanding.

8. Deposits

At year-end the carrying amounts of the City's deposits, including certificates of deposit, were \$493,657. The bank statement balances were \$500,343. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$250,343 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank and the independent third-party bank holding the pledged securities.

9. Risk Management

The City manages risks primarily through the purchase of insurance coverage from commercial insurers.

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

10. Long-term Debt

Changes in long-term debt for the year ended December 31, 2010 and future debt payments are as follows:

Changes in Long-term Debt

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds:										
Internal improvements - Series 2002A	3.30% - 5.00%	7/15/2002	\$ 542,909	10/1/2017	\$ 345,000		\$ 35,000		\$ 310,000	\$ 15,095
Internal improvements - Series 2007A	3.85% - 4.05%	6/15/2007	315,000	10/1/2022	290,000		15,000		275,000	12,072
Internal improvements - Series 2009A	1.75% - 4.40%	5/15/2009	209,000	10/1/2024	209,000		9,000		200,000	10,182
Internal improvements - Series 2009B	3.50% - 5.25%	11/4/2009	66,400	9/1/2025	66,400				66,400	
Total General Obligation Bonds					910,400	-	59,000	-	851,400	37,349
Revolving Loan Program:										
KWPCRLF Project No. C20-1446-01	3.32%	9/1/1997	776,788	3/1/2017	351,666		41,419		310,247	12,040
KWPCRLF Project No. C20-1737-01	2.52%	4/4/2007	1,700,000	9/1/2029	1,173,308		80,098		1,093,210	28,637
Total Revolving Loan Program					1,524,974	-	121,517	-	1,403,457	40,677
Capital Leases:										
Community Center	4.00%	11/19/1999	32,000	11/19/2014	14,051		2,549		11,502	524
Telemetry Equipment	5.50%	6/1/2002	51,000	6/1/2012	15,481		5,939		9,542	703
Fire Truck	4.85%	2/6/2003	270,483	1/1/2013	109,195		29,353		79,842	4,944
Total Capital Leases					138,727	-	37,841	-	100,886	6,171
Total Contractual Indebtedness					2,574,101	-	218,358	-	2,355,743	84,197
Compensated Absences	NA	NA	NA	NA	4,032	-	-	(1,623)	2,409	-
Total Long-Term Debt					<u>\$ 2,578,133</u>	<u>\$ -</u>	<u>\$ 218,358</u>	<u>\$ (1,623)</u>	<u>\$ 2,358,152</u>	<u>\$ 84,197</u>

CITY OF TOWANDA, KANSAS
Notes to Financial Statements
December 31, 2010

10. Long-term Debt, continued

Future Debt Payments

	YEAR								
	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-thereafter	Total
Principal:									
General obligation bonds	\$ 71,400	\$ 72,000	\$ 73,000	\$ 85,000	\$ 85,000	\$ 320,000	\$ 145,000	\$ -	\$ 851,400
Revolving loan program	92,195	94,886	97,658	100,511	103,450	367,797	328,912	218,048	1,403,457
Capital leases	39,810	38,404	19,661	3,011	-	-	-	-	100,886
Total Principal	203,405	205,290	190,319	188,522	188,450	687,797	473,912	218,048	2,355,743
Interest:									
General obligation bonds	37,804	32,713	29,967	27,122	23,785	68,310	15,200	-	234,901
Revolving loan program	48,213	45,098	41,893	38,595	58,291	121,968	63,002	8,366	425,426
Capital leases	4,200	2,285	558	59	-	-	-	-	7,102
Total Interest	90,217	80,096	72,418	65,776	82,076	190,278	78,202	8,366	667,429
Total Principal and Interest	\$ 293,622	\$ 285,386	\$ 262,737	\$ 254,298	\$ 270,526	\$ 878,075	\$ 552,114	\$ 226,414	\$ 3,023,172